

GB Transmission Charging Methodologies Forum

Draft Meeting Report: 22 February 2008

This report outlines the key discussions and actions of the GB TCMF meeting. All presentations, agendas, meeting notes and future meeting dates are available at the TCMF web page of the National Grid Industry Information website at <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>

ATTENDEES

Chris Bennett	National Grid (Chair)	Nigel Fox	National Grid
Hêdd Roberts	National Grid	Frank Prashad	RWE
Patrick Hynes	National Grid	Tom Ireland	National Grid
Simon Lord	First Hydro	Paul Jones	E.ON
Nick Pittarello	National Grid	Robert Longden	Aitricity
Audrey Luksicek	Centrica	Anthony Mungall	Ofgem
Ed Reed	Cornwall Energy Associates	James Anderson	ScottishPower

1 Actions from previous meeting

Action: The meeting agreed the Minutes and Actions, these can be located on the website at <http://www.nationalgrid.com/uk/Electricity/Charges/TCMF>.

Action: Offshore National Grid to consider read across to Scottish Island connections.

National Grid confirmed that it did not believe it was appropriate to consult formally on the specific charging arrangements for the Scottish Island connections given the current uncertainty associated with the regulatory regime. However, National Grid did consult on the principle in the recent consultation on the charging arrangements for offshore transmission. National Grid stated that, in principle, similar treatment to offshore appeared appropriate for Scottish Island connections and invited industry views.

Action National Grid: Confirm the revenue splits in the transport and tariff models.

National Grid reported that the locational element recovers in the range of 20% of overall revenue, although this changes slightly year on year. However, the absolute revenue is not representative of the total revenue flow as there are negative generation charges.

Action on National Grid to provide a presentation covering 'one offs' and miscellaneous charges- included in 2nd presentation by Nick Pittarello.

All presentations have been placed on the Industry website.

2 Current Charging Issues

- **Charging arrangements for 'local' assets**

Tom Ireland gave a presentation on possible arrangements for charging of local assets. National Grid expects to publish a pre consultation on this issue and is looking for industry views. The pre consultation is expected to close 27th March 2008.

Tom explained the main options in the pre consultation, including the specific treatment of assets local to generation connections, the specific treatment of distance to zonal

hub, charging for local substation assets and changing the connection / use of system boundary. Tom discussed in more detail a number of sub options within the specific treatment of local assets and distance to zonal hub models, including local expansion factors, local security factors and the selection of the zonal hub. The presentation also included a number of detailed examples.

FP asked if National Grid have considered specific expansion factors. National Grid noted that using specific historic project costs within the charging model would be problematic.

PJ noted that if CEC is to be used as a proxy for a local charge the local assets should reflect CEC. Within the current framework it is not clear that CEC extends beyond local substation works. National Grid agreed to consider the definition of CEC, or the need for another capacity term for local assets.

SL queried the example on specific treatment of spurs and the use of a specific security factor. It was noted that the cost of a double circuit is unlikely to be double the cost of a single circuit, and therefore it is not a question of 1 or 2 for the Security factor. National Grid noted that more local expansion factors should allow this to be reflected in charges, whereas this is more difficult with a generic approach.

SL also queried the use of the SECULF methodology on spurs. National Grid agreed to liaise directly with SL on this issue.

SL also queried whether the proposals achieved the objectives of the correct signals. Hêdd noted that the proposals appeared to provide a more cost reflective charge. Hêdd also noted that there were also other drivers for producing a local charge (e.g. where generation operates on short term access only) and these options were sufficiently flexible to cover this.

SL also noted that for many generators the decision on the appropriate level of local assets was made many years ago, and it may not be appropriate to implement a new signal for what is intended to be a forward looking methodology.

- **Connection Charges - CEC before TEC**

Nick Pittarello presented how charging could operate if Users applied for CEC in advance of TEC or just without TEC. Under the current shallow charging regime the charge is based on TEC and not CEC, and therefore the existing charging regime needs to be reviewed to ensure it remains cost-reflective moving forward. The presentation highlighted how National Grid has resolved to deal with this issue:

- ♦ For “CEC ahead of TEC applications”, treat infrastructure assets in the same way as connection assets. Infrastructure works will be identified and charged on a monthly basis if first TEC procured in a following TNUoS charging year
- ♦ For “CEC Only” applications, any works identified are charged to the generator as a one-off charge including works on those assets normally considered infrastructure

Nick provided a number of examples for the scenarios.

PJ asked if, in respect of the investment driver, a generator within the Price Control baseline should be charged in this way. National Grid indicated that the proposal was to charge in all circumstances where investment was required ahead of TEC being procured whether or not specific projects were within the baseline to avoid discriminatory charges between Users.

PJ asked if a party dropped their TEC how would it be dealt with. PJ also noted that there were good reasons for requesting CEC before TEC, e.g. a ‘backfeed’ for commissioning. National Grid described that this is about signals for initial investment so if a party subsequently dropped their TEC, it would be for National Grid to decide whether the assets installed to accommodate the original TEC request could be usefully

re-used elsewhere on the network. It was acknowledged that requesting CEC before TEC for “backfeed” was plausible, but the group debated whether delaying TEC by 6 months into a following TNUoS charging year was “co-incidence” and whether “backfeed” in this scenario was a sufficient investment driver.

National Grid indicated that this was the policy that was currently being adopted and it was noted this was not a change to the methodology.

FP noted that there was no technical reason to link local assets/CEC and the current TNUoS charge.

SL queried whether National Grid may need to restrict the ability of users of modify TEC. PJ reiterated that there maybe an inappropriate linkage to National Grid’s investment drivers.

The general view from forum attendees was that neither the process adopted nor the update on the interpretation of the methodology were appropriate or justified. National Grid accepts that the process followed is not ideal, but that it has obligations to respond to changes in customer behaviour. Occasionally it is not possible to engage in formal consultation during the commercially sensitive 3-month Offer timescales. In terms of the methodology, it was noted that the policy is intended as a stop-gap until the work on charging for local assets discussed previously had concluded.

Following on from the discussion, CB indicated that National Grid would consider the comments made and the need for a formal consultation or an open letter. It was noted that this issue is linked to the previous presentation by TI, and a specific local charge would update this.

- **Update generation zoning criteria**

The pre-consultation on generation zoning which covered the definition of “exceptional circumstances” and the \pm £1/kW criterion closed on 4 February 2008. Hêdd thanked the industry for the responses; a number of interesting issues were raised. National Grid was considering the responses and also thinking about the direction of the Transmission Access Review work prior to committing to next steps.

- **Update on Offshore Transmission Charging**

The consultation which covered the offshore connection/use of system boundary, offshore expansion factors and the treatment of HVDC transmission closed on 31 January 2008. Hêdd thanked the industry for the responses and confirmed that the conclusions report was currently being drafted.

Hêdd noted that National Grid had not included the treatment of “embedded transmission” in the consultation following the Ofgem announcement that a working group was being established to investigate this issue. Hêdd noted that a further consultation to cover this issue would be published shortly.

- **Update on Inter TSO Compensation**

Patrick Hynes indicated that National Grid was considering the comments raised at CISG and intended to capture these is a pre-consultation to be published in the next few weeks. National Grid was discussing revenue implications with Ofgem.

National Grid indicated that it understands the Commission have asked consultants to investigate and propose a simpler model for infrastructure compensation. Furthermore, National Grid understood losses would continue to be settled by the WWT methodology. On this basis, the Commission intends to start the comitology process in summer 2008.

3 Events before Next Meeting

Hêdd noted that National Grid was planning to hold a seminar on the Transmission Access Review in March.

4 Any Other Business

The next CISG is planned for 26th March. Likely agenda items are local assets charging and work on the building blocks for access reform. PJ requested embedded transmission be discussed. Hêdd also noted some internal work was ongoing on the Embedded generation model and National Grid were developing both Net and Gross models.

- **Date of Next Meeting:**

The next TCMF meeting is to commence at 10am on 29 April 2008 at National Grid House in Warwick.

End of Report